

MEMORANDUM FOR:
Jim--

The Honorable
James R. Schlesinger
The Secretary of Defense

You have occasionally chided me for not being of greater assistance to you in defending your budget requests. I now have independent and unsolicited evidence to the contrary.

Attached is one of the pieces of fan mail generated by a U. S. News and World Report article. The writer, evidently an expert on Soviet defense expenditures, has cut through the gobbledegook of economic analysis and discovered that my testimony before Congress was "propaganda designed to prevent a reduction in our defense budget for 1975".

W. E. Colby
Director

(DATE)

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Mr. William E. Colby,
Director CIA
Washington, D.C.

November 27, 1974.

Dear Mr. Colby:

The U.S. News & World Report for September 9, 1974, page 56 contained the following statements:

The Soviet Union is now spending more in dollar terms on defense than the U. S. The cost: More than 80 billion dollars a year--- about 4 billion more than U.S. military expenditures for the 1973 fiscal year that ended last June 30.

In the words of Mr. Colby: "From the 1950s until 1970, U.S. defense outlays exceeded the estimated dollar cost of the Soviet effort. Since 1970 the Soviet effort, measured in dollar terms, has exceeded that of the United States. This catching up is a result of steady increases in Soviet spending, while U.S. spending, measured in constant terms, declined."

Obviously, this is propoganda designed to prevent a reduction in our defense budget for 1975. Nevertheless, I am sure an objective investigation would prove the above figures to be complete nonsense.

In fact, the Soviet defense budget for 1973 was less than 23 billion dollars- not 80 billion dollars, as reported above. The 23 billion represents a decrease of 300 million over the previous year; while the U.S. budgeted over 85- an increase of 5 billion over the 1973 amount-- eventhough the Vietnam War was supposed to be past!

The truth is, the Russians spent only one-fourth as much - not 4 billion more than the U.S. in 1973.

How can the Russians keep ahead of us militarily when they spend only one-fourth as much on armaments? The only logical answer is that we have inflation and also permit waste, corruption, and excess corporation profits on defense contracts - while the Soviets operate with little waste and no corporation profits. All profits are distributed to all the people in the form of full employment, free health care for all, from birth to death, free education from Kindergarten through University for all of those capable of benefiting, and low cost housing and transportation for all citizens throughout the Soviet Union.

In the future, Mr. Colby, I urge you to check carefully the facts before publishing such statements.

Respectfully,

W. Max Smith
W. Max Smith

NOT ALL IS GOING WELL IN RUSSIA—

Americans are now able to get a rare glimpse of the Soviet Union through the eyes of this country's intelligence chief.

William E. Colby, Director of the Central Intelligence Agency, in recent reports to congressional committees pictured Russia as racing hard to overtake the U.S.—but still lagging in strategic nuclear power and trailing even more in economic performance.

What follows is the CIA Director's size-up, based on the latest information gathered and analyzed by this country's secret intelligence organization.

Soviet Defense Spending

The Soviet Union is now spending more in dollar terms on defense than the U.S. The CIA estimate is based on extremely complex and sophisticated calculations by intelligence experts of what it would cost America to maintain the kind of military establishment that the Russians support.

The cost: more than 80 billion dollars a year—about 4 billion more than U.S. military expenditures for the 1973 fiscal year that ended last June 30.

In the words of Mr. Colby:

"From the late 1950s until 1970, U.S. defense outlays exceeded the estimated dollar cost of the Soviet effort. Since 1970 the Soviet effort, measured in dollar terms, has exceeded that of the United States. This catching up is a result of steady increases in Soviet spending, while U.S. spending, measured in constant terms, declined."

The main reason for Russia's higher level of defense spending: expansion of the armed forces by an additional 1 million men. As a result, the Soviets have about 4 million men under arms—1.8 million more than the U.S.

Military Efficiency

Russia's numerical advantage in military strength is offset to some extent by the superior quality of American troops.

Soviet servicemen get less training than their American counterparts and less operational experience. For exam-



CIA's Colby "goes public" with unusual appraisal of Russian strength, weakness.

ple: The Soviet Navy "stays at anchor a lot more than they sail."

Also: The Red Army spends less time on maneuvers than U.S. troops, and Soviet airmen fly about half as many hours as American Air Force pilots.

"In all of their forces," Mr. Colby reports, "they [the Soviets] operate much less extensively."

Superpower Missile Race

At a time of growing American fears about a Russian drive to gain strategic superiority, the CIA analysis underlines this conclusion: The Soviets are still lagging behind the U.S. in the strategic-arms race.

To quote the chief of the U.S. intelligence agency:

"The complexity of their missile system, their accuracies, their various other things, have traditionally been behind ours. There is no question about that. And they are just driving to catch up."

He reveals that Soviet spending on the production of new strategic weapons in recent years actually declined. Now, this downward trend is expected to be reversed with the development of four new intercontinental-missile systems.

Indian Ocean Threat

Mr. Colby implicitly discounts warnings by U.S. Navy authorities about a

dangerous Soviet build-up in the Indian Ocean.

His assessment: "The Soviet naval presence has grown slowly but steadily during these [past six] years, and has helped Moscow increase its influence in that part of the world. The forces the Soviets have deployed in the Indian Ocean, however, have been relatively small and inactive."

How far and how fast the Russians expand their naval presence in the Indian Ocean in the future, the CIA director predicts, will depend largely on U.S. action.

"If there is no substantial increase in U.S. naval forces in the area, we believe the Soviet increase will be gradual, say, one to two surface combatants per year."

But a substantial increase in the American naval presence would lead to a "faster and larger" Soviet naval build-up, Mr. Colby warns.

Another development which the CIA believes would lead to an intensified Soviet presence in the Indian Ocean: congressional approval of an American Navy proposal to expand its base on the island of Diego Garcia.

On the other hand, the U.S. intelligence chief challenges the argument that reopening of the Suez Canal will lead automatically to a significant increase in Soviet naval strength in the Indian Ocean. The Russians, he says, might send a few ships from their Mediterranean fleet through the Canal, but a major increase is ruled out for this reason:

"The U.S.S.R. probably recognizes that the Canal is subject to closure in a crisis. The Soviets would not wish to be caught with a substantial proportion of their available units on the wrong end of a blocked Canal."

Technology Gap

This is "becoming a vexing political dilemma for Soviet leaders, as well as a crucial economic problem."

The reason: "This gap is an across-the-board one—from ICBM [intercontinental ballistic missile] systems to electric razors—and increasing contacts with the developed West have made it harder to conceal this situation from the Russian people."

Trade with the developed West is

CIA DIRECTOR COLBY'S OWN SIZE-UP

close the technological gap." A result: Purchases of Western machinery and equipment last year increased by 60 per cent over 1972 to a level of 2.7 billion dollars. Of that, 500 million was spent in the U. S.

Still, the CIA is skeptical about the ability of the Soviets to achieve their goal of economic superiority by "borrowing" the latest European and American technology.

A continuing gap is forecast for this reason: "Communist planners . . . underestimated the pace of Western technology and overestimated their own research-and-development effort."

Trade With the U. S.

The CIA tacitly warns against exaggerating Soviet dependence on trade with America. It is considered important—but not indispensable.

Mr. Colby explains: "If trade relations with the United States were broken, they [the Russians] could find most of what they want in Western Europe and Japan."

A further point stressed by the intelligence chief: A change in the way the Soviets finance their expanding trade with the West is in the cards.

In recent years, low-interest loans have played an important part in financing more imports from Europe, Japan and the U. S. Russia's long-term debt at the end of 1973 totaled 3.6 billion dollars and could reach 9 to 10 billion by 1980 if the Soviets continue to import on credit at the present rate. To service a debt of that size would cost approximately 2.3 billion, or 35 per cent of Russia's total export earnings in 1980.

Against that background, the CIA expects the Russians to rely less on Western credits in the future and to pay cash for more of their imports. Most of the increased funds to finance these cash purchases will probably come from the sale of more gold.

CIA studies show that the Soviets' gold reserves now are adequate. Therefore, the Kremlin "will be free to market most, if not all, of current gold production in Western markets." The estimated annual revenue from these gold sales: 1.5 billion dollars by 1980.

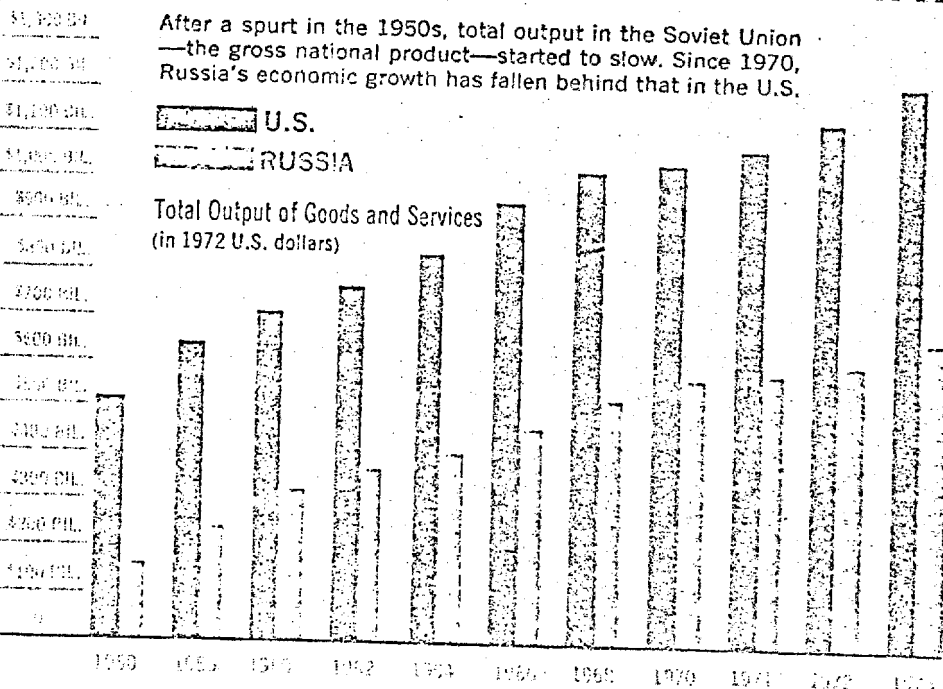
of the U. S.—in contrast to impressive gains in the 1950s. This is a central concern of the Kremlin leadership. Mr. Colby: "The fact that troubles Soviet leaders, despite good progress, is that the U.S.S.R. remains far behind the U. S. in a number of key areas. The emergence of Japan as a major economic force has added to this concern."

The Soviet gross national product—

in terms of organization and efficiency. For example, the Russians employ 31 per cent of their labor force in agriculture as opposed to 4 per cent in the United States. The Soviet output per worker is only 11 per cent as much as is achieved in the United States."

Mr. Colby sees little prospect of a breakthrough that would enable Communist Russia to overcome its economic

RUSSIA: TRAILING U.S. IN ECONOMIC GROWTH



Source: U.S. Dept. of Commerce
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estimated by official American intelligence experts at 660 billion dollars—is only about half that of the U. S.

It is in labor productivity that the gap between Soviet and U. S. performance is greatest. The CIA size-up:

In factories: "In spite of a volume of investment per worker nearly equal to U. S. levels in recent years, labor productivity in Soviet industry is only about half the U. S. level." The reason for this failing? "Managerial problems inherent in a centralized and bureaucratic system are the root cause."

In farming: "Of all sectors in the United States and Soviet economies,

shortcomings. The problems are built into the system.

He points out that "the economic mechanisms devised by Stalin were effective in pulling the country up by the boot straps and establishing the basic foundations of an industrialized economy." But these "mechanisms" are not suitable for meeting the needs of a modern society.

The Kremlin's dilemma: How to adjust the system to meet these needs without in the end surrendering the all-important power exercised by the Communist leadership.

No one, Mr. Colby stresses, has yet